

(A Nonprofit Public Benefit Corporation)

**FINANCIAL STATEMENTS
INCLUDING SUPPLEMENTARY INFORMATION
ON FEDERAL FINANCIAL AWARDS**

Years Ended June 30, 2011 and 2010

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date **JAN 16 2013**

PLAYWORKS
EDUCATION ENERGIZED
(A Nonprofit Public Benefit Corporation)

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Playworks Education Energized
(A Nonprofit Public Benefit Corporation)
Oakland, California

We have audited the accompanying statements of financial position of Playworks Education Energized, (formerly "Sports4Kids"), ("Playworks" or the "Organization"), (a nonprofit public benefit corporation) as of June 30, 2011 and 2010, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Playworks Education Energized as of June 30, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 4, 2011, on our consideration of Playworks Education Energized's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



Our audit was conducted for the purpose of forming an opinion on the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Berger Lewis Accountancy Corporation

BERGER LEWIS ACCOUNTANCY CORPORATION
San Jose, California
November 4, 2011

PLAYWORKS
EDUCATION ENERGIZED
(A Nonprofit Public Benefit Corporation)

STATEMENTS OF FINANCIAL POSITION

June 30, 2011 and 2010

ASSETS		
	<u>2011</u>	<u>2010</u>
CURRENT ASSETS:		
Cash and Cash Equivalents	\$ 867,607	\$ 933,526
Accounts Receivable, Less Allowance for Doubtful Accounts of \$75,902 and \$78,085 in 2011 and 2010, Respectively	850,269	749,849
Grants Receivable, Current Portion (See Note 5)	6,470,224	7,288,075
Pledges Receivable	76,769	76,315
Prepaid Expenses	<u>268,494</u>	<u>182,067</u>
Total Current Assets	<u>8,533,363</u>	<u>9,229,832</u>
PROPERTY AND EQUIPMENT, NET	<u>423,241</u>	<u>426,247</u>
OTHER ASSETS:		
Grants Receivable, Net of Current Portion (See Note 5)	165,500	5,735,197
Deposits	29,227	14,545
Intangible Assets	<u>8,750</u>	<u>16,250</u>
Total Other Assets	<u>203,477</u>	<u>5,765,992</u>
TOTAL ASSETS	<u>\$ 9,160,081</u>	<u>\$ 15,422,071</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:		
Accounts Payable	\$ 18,397	\$ 83,104
Accrued Liabilities	792,614	571,302
Deferred Revenue	179,643	81,410
Line of Credit	<u>1,700,000</u>	<u>-</u>
Total Current Liabilities	<u>2,690,654</u>	<u>735,816</u>
LONG-TERM LIABILITIES, NET OF CURRENT PORTION:		
Lines of Credit	1,650,000	2,450,000
Other Long-Term Liabilities	<u>40,969</u>	<u>19,891</u>
Total Long-Term Liabilities, Net of Current Portion	<u>1,690,969</u>	<u>2,469,891</u>
Total Liabilities	<u>4,381,623</u>	<u>3,205,707</u>
NET ASSETS:		
Unrestricted Net Assets	83,956	452,886
Temporarily Restricted Net Assets (See Note 9)	<u>4,694,502</u>	<u>11,763,478</u>
Total Net Assets	<u>4,778,458</u>	<u>12,216,364</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 9,160,081</u>	<u>\$ 15,422,071</u>

The Accompanying Notes are an Integral Part of these Financial Statements

PLAYWORKS
EDUCATION ENERGIZED
(A Nonprofit Public Benefit Corporation)

STATEMENT OF ACTIVITIES

Year Ended June 30, 2011 with Comparative Totals for the Year Ended June 30, 2010

	2011			2010
	Unrestricted	Temporarily Restricted	TOTAL	TOTAL
SUPPORT AND REVENUE:				
Support				
Foundation Grants (See Note 2)	\$ 48,499	\$ 1,493,575	\$ 1,542,074	\$ 4,070,102
Contributions In-Kind	1,854,871	-	1,854,871	412,971
Individual Contributions	339,061	-	339,061	185,309
Corporate Support	353,243	904,000	1,257,243	181,458
Events, Net of Donor Benefit	258,436	-	258,436	209,800
Total Support	2,854,110	2,397,575	5,251,685	5,059,640
Revenue				
Contract Services	6,354,985	-	6,354,985	4,476,470
Government Grants	2,042,536	-	2,042,536	1,937,712
Other Revenue	108,186	-	108,186	7,000
Investments Income	2,663	-	2,663	6,125
Loss on Disposal of Equipment	-	-	-	(4,264)
Total Revenue	8,508,370	-	8,508,370	6,423,043
Total Support and Revenue	11,362,480	2,397,575	13,760,055	11,482,683
Net Assets Released from Restrictions	9,466,551	(9,466,551)	-	-
Total Support, Revenue and Net Assets Released from Restrictions	20,829,031	(7,068,976)	13,760,055	11,482,683
EXPENSES:				
Program Services				
School Program	16,986,187	-	16,986,187	10,645,100
Training Program	615,474	-	615,474	639,651
Total Program Services	17,601,661	-	17,601,661	11,284,751
Supporting Services				
Management and General	2,228,608	-	2,228,608	2,006,830
Fundraising	1,367,692	-	1,367,692	839,782
Total Supporting Services	3,596,300	-	3,596,300	2,846,612
Total Expenses	21,197,961	-	21,197,961	14,131,363
CHANGE IN NET ASSETS (See Note 2)	(368,930)	(7,068,976)	(7,437,906)	(2,648,680)
NET ASSETS, Beginning of Year	452,886	11,763,478	12,216,364	14,865,044
NET ASSETS, End of Year	\$ 83,956	\$ 4,694,502	\$ 4,778,458	\$ 12,216,364

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PLAYWORKS
EDUCATION ENERGIZED
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STATEMENT OF ACTIVITIES

Year Ended June 30, 2010

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>TOTAL</u>
SUPPORT AND REVENUE:			
Support			
Foundation Grants (See Note 2)	\$ 56,100	\$ 4,014,002	\$ 4,070,102
Contributions In-Kind	412,971	-	412,971
Individual Contributions	185,309	-	185,309
Corporate Support	181,458	-	181,458
Events, Net of Donor Benefit	<u>209,800</u>	<u>-</u>	<u>209,800</u>
Total Support	<u>1,045,638</u>	<u>4,014,002</u>	<u>5,059,640</u>
Revenue			
Contract Services	4,476,470	-	4,476,470
Government Grants	1,937,712	-	1,937,712
Other Revenue	7,000	-	7,000
Investments Income	6,125	-	6,125
Loss on Disposal of Equipment	<u>(4,264)</u>	<u>-</u>	<u>(4,264)</u>
Total Revenue	<u>6,423,043</u>	<u>-</u>	<u>6,423,043</u>
Total Support and Revenue	7,468,681	4,014,002	11,482,683
Net Assets Released from Restrictions	<u>6,695,119</u>	<u>(6,695,119)</u>	<u>-</u>
Total Support, Revenue and Net Assets Released from Restrictions	<u>14,163,800</u>	<u>(2,681,117)</u>	<u>11,482,683</u>
EXPENSES:			
Program Services			
School Program	10,645,100	-	10,645,100
Training Program	<u>639,651</u>	<u>-</u>	<u>639,651</u>
Total Program Services	<u>11,284,751</u>	<u>-</u>	<u>11,284,751</u>
Supporting Services			
Management and General	2,006,830	-	2,006,830
Fundraising	<u>839,782</u>	<u>-</u>	<u>839,782</u>
Total Supporting Services	<u>2,846,612</u>	<u>-</u>	<u>2,846,612</u>
Total Expenses	<u>14,131,363</u>	<u>-</u>	<u>14,131,363</u>
CHANGE IN NET ASSETS (See Note 2)	32,437	(2,681,117)	(2,648,680)
NET ASSETS, Beginning of Year	<u>420,449</u>	<u>14,444,595</u>	<u>14,865,044</u>
NET ASSETS, End of Year	<u>\$ 452,886</u>	<u>\$ 11,763,478</u>	<u>\$ 12,216,364</u>

The Accompanying Notes are an Integral Part of these Financial Statements

PLAYWORKS
EDUCATION ENERGIZED
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STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2011 with Comparative Totals for the Year Ended June 30, 2010

	PROGRAM SERVICES			SUPPORTING SERVICES			TOTAL	
	School Program	Training Program	Total	Management and General	Fundraising	Total	2011	2010
EXPENSES								
Salaries and Wages	\$ 10,707,892	\$ 235,080	\$ 10,942,972	\$ 1,341,431	\$ 772,333	\$ 2,113,764	\$ 13,056,736	\$ 9,262,041
Employee Benefits	1,611,220	25,062	1,636,282	136,006	82,764	218,770	1,855,052	1,219,801
Payroll Tax	864,254	18,510	882,764	92,384	54,797	147,181	1,029,945	723,079
Total Salaries and Related Expenses	13,183,366	278,652	13,462,018	1,569,821	909,894	2,479,715	15,941,733	11,204,921
Other Professional Services, Including In-Kind	1,807,165	79,643	1,886,808	20,518	160,832	181,350	2,068,158	483,240
Travel and Related Expenses, Including In-Kind	644,369	49,837	694,206	89,028	64,565	153,593	847,799	597,310
Rent, Including In-Kind	431,239	23,551	454,790	140,521	43,962	184,483	639,273	459,680
Staff Recruitment and Training	141,072	127,737	268,809	28,572	2,961	31,533	300,342	204,144
School Supplies	173,276	230	173,506	1,633	14,366	15,999	189,505	105,992
Dues, Licenses, Service Fees	76,692	3,835	80,527	79,665	11,849	91,514	172,041	89,249
Telephone	95,707	7,177	102,884	25,844	7,993	33,837	136,721	121,444
Printing and Publications	16,966	14,087	31,053	18,792	70,626	89,418	120,471	102,938
Supplies	49,387	11,321	60,708	19,421	21,218	40,639	101,347	80,451
Bad Debt	90,772	-	90,772	-	-	-	90,772	120,166
Legal Fees, Including In-Kind	4,000	-	4,000	67,983	-	67,983	71,983	180,545
Insurance	59,104	1,477	60,581	3,814	2,652	6,466	67,047	26,728
Interest	55,836	1,179	57,015	3,824	2,222	6,046	63,061	49,301
Postage	19,818	2,434	22,252	20,450	11,432	31,882	54,134	33,504
Accounting Fees	-	-	-	50,040	-	50,040	50,040	44,600
Small Equipment and Maintenance	27,967	1,154	29,121	16,956	2,161	19,117	48,238	78,960
Marketing and Advertising, Including In-Kind	9,549	112	9,661	7,734	18,231	25,965	35,626	38,771
Utilities	19,042	1,487	20,529	7,326	2,602	9,928	30,457	16,805
Government Grant Commission	10,313	-	10,313	-	-	-	10,313	7,577
Total Expenses Before Depreciation and Amortization	16,915,640	603,913	17,519,553	2,171,942	1,347,566	3,519,508	21,039,061	14,046,326
Depreciation and Amortization	70,547	11,561	82,108	56,666	20,126	76,792	158,900	85,037
Total Functional Expenses	\$ 16,986,187	\$ 615,474	\$ 17,601,661	\$ 2,228,608	\$ 1,367,692	\$ 3,596,300	\$ 21,197,961	\$ 14,131,363
Percentage of Total (See Note)	80.1 %	2.9 %	83.0 %	10.5 %	6.4 %	17.0 %	100.0 %	

The Accompanying Notes are an Integral Part of these Financial Statements

PLAYWORKS
EDUCATION ENERGIZED
(A Nonprofit Public Benefit Corporation)

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2010

	PROGRAM SERVICES			SUPPORTING SERVICES			TOTAL
	School Program	Training Program	Total	Management and General	Fundraising	Total	
EXPENSES							
Salaries and Wages	\$ 7,403,912	\$ 328,779	\$ 7,732,691	\$ 1,043,313	\$ 486,037	\$ 1,529,350	\$ 9,262,041
Employee Benefits	1,037,121	41,560	1,078,681	92,034	49,086	141,120	1,219,801
Payroll Tax	591,777	25,197	616,974	69,886	36,219	106,105	723,079
Total Salaries and Related Expenses	9,032,810	395,536	9,428,346	1,205,233	571,342	1,776,575	11,204,921
Travel and Related Expenses, Including In-Kind	401,551	68,484	470,035	70,291	56,984	127,275	597,310
Other Professional Services, Including In-Kind	186,086	110,179	296,265	142,534	44,441	186,975	483,240
Rent, Including In-Kind	295,675	20,454	316,129	107,537	36,014	143,551	459,680
Staff Recruitment and Training	119,464	6,223	125,687	68,039	10,418	78,457	204,144
Telephone	83,512	7,782	91,294	24,981	5,169	30,150	121,444
Bad Debt	120,166	-	120,166	-	-	-	120,166
School Supplies	100,615	1,083	101,698	2,057	2,237	4,294	105,992
Printing and Publications	9,138	6,408	15,546	32,098	55,294	87,392	102,938
Legal Fees, Including In-Kind	-	-	-	180,545	-	180,545	180,545
Dues, Licenses, Service Fees	43,456	3,981	47,437	35,032	6,780	41,812	89,249
Supplies	51,172	4,368	55,540	16,011	8,900	24,911	80,451
Small Equipment and Maintenance, Including In-Kind	45,068	4,036	49,104	26,532	3,324	29,856	78,960
Interest	39,780	1,519	41,299	6,175	1,827	8,002	49,301
Accounting Fees	-	-	-	44,600	-	44,600	44,600
Marketing and Advertising	1,443	1,175	2,618	15,999	20,154	36,153	38,771
Postage	12,877	1,292	14,169	8,137	11,198	19,335	33,504
Insurance	12,823	3,049	15,872	8,759	2,097	10,856	26,728
Utilities	12,996	969	13,965	2,275	565	2,840	16,805
Government Grant Commission	7,577	-	7,577	-	-	-	7,577
Total Expenses Before Depreciation and Amortization	10,576,209	636,538	11,212,747	1,996,835	836,744	2,833,579	14,046,326
Depreciation and Amortization	68,891	3,113	72,004	9,995	3,038	13,033	85,037
Total Functional Expenses	\$ 10,645,100	\$ 639,651	\$ 11,284,751	\$ 2,006,830	\$ 839,782	\$ 2,846,612	\$ 14,131,363
Percentage of Total	75.4 %	4.5 %	79.9 %	14.2 %	5.9 %	20.1 %	100.0 %

The Accompanying Notes are an Integral Part of these Financial Statements

PLAYWORKS
EDUCATION ENERGIZED
(A Nonprofit Public Benefit Corporation)

STATEMENTS OF CASH FLOWS

Years Ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in Net Assets	\$ (7,437,906)	\$ (2,648,680)
Adjustments to Reconcile Change in Net Assets to Net Cash		
Used by Operating Activities		
Depreciation and Amortization	158,900	85,037
Donated Property and Equipment	-	(48,650)
Loss on Disposal of Equipment	-	4,264
Amortization of Present Value Discount on Multi-Year		
Grants Receivable	(444,624)	(307,253)
Bad Debt Expense	90,772	120,166
(Increase) Decrease in Assets		
Accounts Receivable	(191,192)	(509,106)
Grants Receivable	6,832,172	2,115,054
Pledges Receivable	(454)	(76,315)
Prepaid Expenses	(86,427)	(72,702)
Deposits	(14,681)	16,666
Increase (Decrease) in Liabilities		
Accounts Payable	(64,708)	11,731
Accrued Liabilities	221,313	136,874
Deferred Revenue	98,233	61,251
Other Long-Term Liabilities	<u>21,078</u>	<u>19,891</u>
Net Cash Used by Operating Activities	<u>(817,524)</u>	<u>(1,091,772)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of Property and Equipment	(148,395)	(244,281)
Purchase of Intangible Assets	<u>-</u>	<u>(16,250)</u>
Net Cash Used by Investing Activities	<u>(148,395)</u>	<u>(260,531)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from Borrowings	7,750,000	5,250,000
Repayments of Borrowings	<u>(6,850,000)</u>	<u>(4,450,000)</u>
Net Cash Provided by Financing Activities	<u>900,000</u>	<u>800,000</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(65,919)	(552,303)
CASH AND CASH EQUIVALENTS, Beginning of Year	<u>933,526</u>	<u>1,485,829</u>
CASH AND CASH EQUIVALENTS, End of Year	<u>\$ 867,607</u>	<u>\$ 933,526</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS		
INFORMATION:		
Cash Paid for Interest	<u>\$ 53,275</u>	<u>\$ 49,301</u>

The Accompanying Notes are an Integral Part of these Financial Statements

PLAYWORKS
EDUCATION ENERGIZED
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NOTES TO FINANCIAL STATEMENTS

NOTE 1 - ORGANIZATION

Playworks Education Energized ("Playworks" or the "Organization") is a nonprofit public benefit corporation dedicated to maximizing the value of recess for learning at public schools by increasing opportunities for physical activity and safe, meaningful play. During the year ended June 30, 2011, the Organization served 100,000 children in 247 schools located in 15 cities. Playworks launched programs in 8 additional cities after the close of the fiscal year allowing the Organization's 450 employees to serve approximately 120,000 students at 300 schools in a total of 23 cities including Albuquerque, Baltimore, Boston, Chicago, Denver, Detroit, Durham, Houston, Jackson, Los Angeles, Milwaukee, Oakland CA, Newark NJ, New York, New Orleans, Philadelphia, Phoenix, Portland, St Paul, Salt Lake City, San Francisco, Silicon Valley, and Washington D C.

Founded in 1996, the Organization works primarily in public elementary schools with student populations that average 80 percent free/reduced-lunch-eligible children. Playworks hires and trains full-time coaches to work with its partner schools. Playworks coaches maximize recess for learning by stopping the chaos on school playgrounds and shifting student behavior by teaching organized games during recess and class game time, and providing after-school games, supervised playtime, developmental sports leagues and leadership training.

NOTE 2 - NATIONAL EXPANSION / CHANGE IN NET ASSETS

In support of Playworks' mission, the Organization received a four-year grant in 2008 in the amount of \$18,734,344 from the Robert Wood Johnson Foundation (see Note 5) to expand school-based play and physical activity to 22 new cities across the United States, to provide technical assistance to 4,000 additional schools and to develop Playworks as a national voice for play. The Organization was required to recognize the entire grant amount of \$18,734,344 (less present value discount) as temporarily restricted support in the year the grant was first made.

As a result of this required accounting for the grant, as this four-year grant is spent, there is an annual decrease reflected in the Temporarily Restricted column of the statement of activities related to the accounting for this grant. For the year ended June 30, 2011, of the \$9,466,551 in net assets released from restrictions, \$6,701,802 of this total is related to the accounting for this grant. Releases from restriction for this grant were \$4,767,138, \$3,965,056 and \$0 for the years ended June 30, 2010, 2009 and 2008, respectively.

The amount shown in the Total column in the Change in Net Assets on the statement of activities (an amount that is analogous to "net income" or "net loss" in a for-profit income statement) is negative \$7,437,906 for the year ended June 30, 2011, primarily as a result of the required accounting treatment described above.

This four-year grant follows a smaller grant awarded in 2005 which also supported the Organization's expansion. The initial grant enabled Playworks to launch programs in three new cities and to establish its national office to support the expansion.

The Robert Wood Johnson Foundation is the largest philanthropic organization devoted exclusively to improving the health and health care of all Americans.

PLAYWORKS
EDUCATION ENERGIZED
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NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 2 - NATIONAL EXPANSION / CHANGE IN NET ASSETS (Continued)

The cumulative change in net assets since the receipt of the Robert Wood Johnson Foundation grant in 2008 is as follows

	<u>6/30/11</u>	<u>6/30/10</u>	<u>6/30/09</u>	<u>6/30/08</u>	<u>Total</u>
Total Support and Revenue	\$ 13,760,055	\$ 11,482,683	\$ 8,521,203	\$ 24,623,949	\$ 58,387,890
Total Expenses	<u>(21,197,961)</u>	<u>(14,131,363)</u>	<u>(12,529,569)</u>	<u>(8,736,359)</u>	<u>(56,595,252)</u>
Change in Net Assets	<u>\$ (7,437,906)</u>	<u>\$ (2,648,680)</u>	<u>\$ (4,008,366)</u>	<u>\$ 15,887,590</u>	<u>\$ 1,792,638</u>

NOTE 3 - PROGRAM SERVICES

School Program - The Organization addresses the physical, emotional, and cognitive needs of children by coordinating full day play and physical activity programming - during lunchtime, recess, and after school - taught from a framework of youth development. At each school, enthusiastic, well-trained Playworks' Program Coordinators

- create a structured, safe and inclusive environment on the playground by coordinating a variety of schoolyard sports and games during recess and lunch,
- work with classroom teachers to reintroduce physical activity into the school curriculum,
- develop and coordinate before and after school physical activity programs,
- coordinate interscholastic evening basketball and volleyball leagues,
- implement a youth leadership program at each site, and
- employ play as a tool for generating more community and family involvement

Each Playworks' Program Coordinator works at their school five days a week, throughout the school day and after school, to lead games and physical activities based on a curriculum that has been tested and refined over a decade of program operations

Training Program - To complement the school based-program and further the Organization's mission, Playworks Training provides customized staff trainings to schools, after school programs, summer camps, recreation centers, and various other youth service organizations. Training is provided on a fee-for-service basis, customized depending on the number of trainings requested, the number of participants, and the length of each training

In October 2010, Playworks Training sponsored its second national conference offering comprehensive, hands-on training in play and physical activity for children including sessions focused on the value of play for learning, informed policy setting and best practices for getting communities involved in play. This conference showcased a broad range of positive, healthy play initiatives from communities across the country

PLAYWORKS
EDUCATION ENERGIZED
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NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting - The financial statements of Playworks Education Energized have been prepared on the accrual basis of accounting

Basis of Presentation - The Organization follows standards of accounting and financial reporting for voluntary health and welfare organizations. In accordance with accounting principles generally accepted in the United States of America, the Organization reports its financial position and operating activities in three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted net assets include those assets over which the Board of Directors has discretionary control in carrying out the operations of the Organization. Under this category, the Organization maintains an operating fund plus any net assets designated by the Board for specific purposes.

Temporarily restricted net assets include those assets which are subject to donor restriction and for which the applicable restriction was not met as of the year end of the current reporting period.

Permanently restricted net assets include those assets which are subject to a non-expiring donor restriction, such as endowments. There are currently no permanently restricted net assets.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of support, revenue and expenses during the period. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents - Cash and cash equivalents include highly liquid investments and investments with a maturity of three months or less, and exclude donor restricted receipts and amounts designated for long-term purposes. The Organization maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts. Management believes it is not exposed to any significant risk on cash accounts.

Investments - Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statements of financial position. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by a donor are reported as increases in restricted net assets. When the restrictions are met (either by passage of time or by use) the amounts are shown as a reclassification of restricted net assets to unrestricted net assets.

Fair Value Measurement - Fair value is defined as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date."

PLAYWORKS
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NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A hierarchy has been established to prioritize the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest ranking to fair values determined using unadjusted quoted prices in active markets for identical assets (Level 1) and the lowest ranking to fair values determined using methodologies and models with unobservable inputs (Level 3). Observable inputs are those that market participants would use in pricing the asset based on market data obtained from sources independent of the Organization. Unobservable inputs reflect the Organization's assumption about the inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1 - Values are unadjusted quoted prices for identical assets and liabilities in active markets accessible at the measurement date.

Level 2 - Inputs include quoted prices for similar assets or liabilities in active markets, quoted prices from those willing to trade in markets that are not active, or other inputs that are observable or can be corroborated by market data for the term of the instrument. Such inputs include market interest rates and volatilities, spreads and yield curves.

Level 3 - Certain inputs are unobservable (supported by little or no market activity) and significant to the fair value measurement. Unobservable inputs reflect the Organization's best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

Accounts Receivable - Accounts receivable represent amounts due from schools and are stated at the amount the Organization expects to collect for contract services. Provision for losses on receivables is made when considered necessary to maintain an adequate allowance to cover bad debts. Receivables are charged against the allowance when the Organization determines that payments will not be received. Any subsequent receipts are credited to the allowance. As of June 30, 2011 and 2010, the Organization had a allowance for doubtful accounts of \$75,902 and \$78,085, respectively. Bad debt expense for the years ended June 30, 2011 and 2010 amounted to \$90,772 and \$120,166, respectively.

Grants Receivable - Unconditional promises to give, less an allowance for uncollectible amounts, are recognized as contribution revenue in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Promises are recorded at net realizable value if expected to be collected in one year and at fair value if expected to be collected in more than one year. Conditional promises to give, if any, are recognized only when the conditions on which they depend are substantially met and the promises become unconditional. The Organization considers all unconditional promises to give to be fully collectible, accordingly, no allowance for doubtful accounts is considered necessary.

PLAYWORKS
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NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment - Property and equipment are recorded at cost or estimated fair value for donated items. Equipment purchases over \$1,000 are capitalized. The cost of repairs and maintenance which do not improve or extend the lives of the respective assets are expensed currently. Depreciation is computed on the straight-line method based on the estimated useful lives of the assets, which range from 3 to 15 years. Depreciation is charged to the activity benefiting from the use of the property or equipment.

Accrued Vacation - Accrued vacation represents vacation earned, but not taken as of June 30, 2011 and 2010, and is included in "accrued liabilities" in the statements of financial position. The accrued vacation balance as of June 30, 2011 and 2010 was \$284,451 and \$207,255, respectively.

Revenue Recognition - The Organization recognizes support and revenue on the accrual basis of accounting. Revenue from grants which have been classified as "exchange transactions" and contract service fees are recognized as revenue in the period in which the service is provided.

Deferred Revenue - Deferred revenue represents amounts paid in advance for school site programs and exchange transactions.

Contributions - Contributions are recognized when the donor makes a pledge to give that is, in substance, an unconditional promise. Contributions are recorded as unrestricted, temporarily restricted, or permanently restricted depending on the nature of donor restrictions. Temporarily restricted contributions are reported as increases in restricted net assets. When the restriction is met the amount is shown as a reclassification of restricted net assets to unrestricted net assets.

Contributions In-Kind - Donated equipment and other donated goods are recorded at their estimated fair value as of the date of the donation. Contributed services, which require a specialized skill and which the Organization would have paid for if not donated, are recorded at the estimated fair value at the time the services are rendered. The Organization also receives donated services that do not require specific expertise but which are nonetheless central to the Organization's operations.

Expense Allocation - The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities and in the statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Management's estimate of indirect salary expense allocation is based on individual employee timesheets and/or estimated time spent by function. Management's estimate of other indirect costs are based on salary expense and/or headcount.

Income Taxes - Playworks Education Energized is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and exempt from state income taxes under various state codes. Accordingly, no provision for income taxes has been made in the accompanying statements. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) of the Internal Revenue Code and has been classified as an organization that is not a private foundation under Section 509(a)(1) of the Internal Revenue Code.

PLAYWORKS
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NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Uncertainty in Taxes - Generally accepted accounting principles provide accounting and disclosure guidance about positions taken by an organization in its tax returns that might be uncertain. Management has considered its tax positions and believes that all of the positions taken by the Organization in its federal and state exempt organization tax returns are more likely than not to be sustained upon examination.

The Organization's federal returns for the years ended June 30, 2010, 2009 and 2008 could be subject to examination by federal taxing authorities, generally for three years after they are filed. The Organization's state returns for the years ended June 30, 2010, 2009, 2008 and 2007 could be subject to examination by state taxing authorities, generally for four years after they are filed.

Marketing and Advertising - The Organization's policy is to expense marketing and advertising costs as the costs are incurred. Marketing and advertising expenses for the years ended June 30, 2011 and 2010 were \$35,626 and \$38,771, respectively.

Reclassifications - Certain amounts in the prior year have been reclassified in order to be consistent with the current year presentation.

Subsequent Events - Management of the Organization has evaluated events and transactions subsequent to June 30, 2011 for potential recognition or disclosure in the financial statements. The Organization had two subsequent events that required recognition or disclosure in the financial statements for the year ended June 30, 2011 (see Note 18). Subsequent events have been evaluated through the date the financial statements became available to be issued, November 4, 2011. The Organization has not evaluated subsequent events after November 4, 2011.

NOTE 5 - GRANTS RECEIVABLE

The Organization received a four-year grant in the amount of \$18,734,344 during the year ended June 30, 2008. This grant receivable is reflected at present value using a discount rate of 3.2%. The Organization also received two 3-year grants totaling \$3,225,000 during the year ended June 30, 2010. In addition, the Organization received one 3-year grant totaling \$250,000 during the year ended June 30, 2011. These grants receivable are reflected at present value using discount rates ranging from 1.8% to 5.3%.

	<u>2011</u>	<u>2010</u>
Total Grants Receivable	\$ 6,880,570	\$ 13,712,742
Present Value Discount	<u>(244,846)</u>	<u>(689,470)</u>
	6,635,724	13,023,272
Less: Current Portion	<u>(6,470,224)</u>	<u>(7,288,075)</u>
Total Grants Receivable, Net of Current Portion	<u>\$ 165,500</u>	<u>\$ 5,735,197</u>

PLAYWORKS
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NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 5 - GRANTS RECEIVABLE (Continued)

Future grants receivable payments are as follows

<u>Year Ending June 30,</u>	<u>Gross</u>	<u>Present Value Discount</u>	<u>Net</u>
2012	\$ 6,705,570	\$ (235,346)	\$ 6,470,224
2013	<u>175,000</u>	<u>(9,500)</u>	<u>165,500</u>
Total Future Grants Receivable Payments	<u>\$ 6,880,570</u>	<u>\$ (244,846)</u>	<u>\$ 6,635,724</u>

NOTE 6 - PROPERTY AND EQUIPMENT

The cost and related accumulated depreciation of the property and equipment as of June 30, consisted of the following

	<u>2011</u>	<u>2010</u>
Furniture and Equipment	\$ 228,761	\$ 209,806
Capitalized Software	210,172	75,253
Tenant Improvements	136,284	132,356
Website	131,041	131,041
Capital Lease Equipment	<u>7,120</u>	<u>7,120</u>
	713,378	555,576
Less Accumulated Depreciation	<u>(290,137)</u>	<u>(129,329)</u>
Property and Equipment, Net	<u>\$ 423,241</u>	<u>\$ 426,247</u>

Depreciation expense for the years ended June 30, 2011 and 2010 was \$151,400 and \$78,787, respectively

NOTE 7 - NOTE PAYABLE

The Organization entered into a \$750,000 term loan on December 10, 2008 with Robert Wood Johnson Foundation. The term loan was unsecured and bore interest at 2.00%. The term loan matured on September 30, 2009.

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NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 8 - LINES OF CREDIT

The Jenesis Group - The Organization entered into a one-year loan agreement effective as of October 1, 2010 with The Jenesis Group allowing for borrowings up to \$2 million to be used for cash flow for operations. The interest rate was at 2.79%. This agreement provided for two additional 12-month extensions subject to the approval of The Jenesis Group prior to expiration of the agreement. The Jenesis Group approved a 12-month extension of the line of credit through October 1, 2012 and the interest rate was adjusted to 2.86%. As of June 30, 2011 and 2010, the amount outstanding was \$1,650,000 and \$1,500,000, respectively.

One PacificCoast Bank - The Organization entered into a \$3,500,000 working capital line of credit on August 11, 2009 with One PacificCoast Bank (formerly OneCalifornia Bank). The line of credit is secured by a certificate of deposit in the name of Robert Wood Johnson Foundation and bears interest at 3.00% per annum. The line of credit which matured on August 11, 2011 was renewed and now matures on December 19, 2011. As of June 30, 2011 and 2010 the amount outstanding was \$1,700,000 and \$950,000, respectively.

NOTE 9 - TEMPORARILY RESTRICTED NET ASSETS

The Organization's temporarily restricted net assets as of June 30, consisted of the following:

	<u>2011</u>	<u>2010</u>
National Expansion	\$ 4,225,263	\$ 11,332,441
Colorado Programs	210,000	-
Massachusetts Programs	139,239	214,239
Maryland Programs	50,000	10,000
Washington D C Programs	45,000	-
New Jersey / New York Programs	15,000	-
California Programs	10,000	186,798
Oregon Programs	<u>-</u>	<u>20,000</u>
Total Temporarily Restricted Net Assets	<u>\$ 4,694,502</u>	<u>\$ 11,763,478</u>

PLAYWORKS
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NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 10 - CONTRIBUTIONS IN-KIND

The estimated fair value of donated office space, gym rental space, property and equipment, supplies and expert services are recorded as contributions. During the years ended June 30, the following in-kind contributions were received by the Organization:

	<u>2011</u>	<u>2010</u>
Consulting Services	\$ 1,686,992	\$ 115,556
Office Space	77,551	50,235
Legal Services	63,983	180,212
Marketing	15,000	-
Miscellaneous	11,345	18,318
Property and Equipment	<u>-</u>	<u>48,650</u>
Total Contributions In-Kind	<u>\$ 1,854,871</u>	<u>\$ 412,971</u>

NOTE 11 - NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from restrictions during the year by incurring expenses satisfying the restricted purpose or by the expiration of time as follows:

	<u>2011</u>	<u>2010</u>
National Expansion	\$ 8,075,500	\$ 5,784,489
California Programs	533,086	625,798
Massachusetts Programs	334,000	130,500
Maryland Programs	155,000	80,000
New Jersey / New York Programs	125,000	16,666
Colorado Programs	83,500	-
Washington D C Programs	62,500	20,000
Oregon Programs	53,000	16,666
Pennsylvania Programs	25,000	-
Minnesota Programs	15,000	-
Texas Programs	4,965	-
New Orleans Programs	-	16,000
Missouri Programs	<u>-</u>	<u>5,000</u>
Total Net Assets Released from Restrictions	<u>\$ 9,466,551</u>	<u>\$ 6,695,119</u>

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NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 12 - CONFLICT OF INTEREST POLICY

Included among the Organization's Board of Directors and Officers are volunteers from the community who provide valuable assistance to the Organization in the development of policies and programs and in the evaluation of business transactions. The Organization has adopted a conflict of interest policy whereby Board members are disqualified from participation in the final decisions regarding any action affecting their related company or agency.

NOTE 13 - CONTINGENCIES

Grants and contracts awarded to Playworks Education Energized are subject to the funding agencies' criteria, contract terms and regulations under which expenditures may be charged and are subject to audit under such terms, regulations and criteria. Occasionally, such audits may determine that certain costs incurred in connection with the grants do not comply with the established criteria that govern them. In such cases, the Organization could be held responsible for repayments to the funding agency for the costs or be subject to a reduction of future funding in the amount of the costs. Management does not anticipate any material questioned costs for the contracts and grants administered during the period. The Organization would be responsible for the absorption of any over-expenditure of its restricted grants which cannot be covered by additional grant funds or contributions from other sources.

NOTE 14 - CONCENTRATIONS

The Organization has one grantor that comprised 63% and 80% of grants receivable as of June 30, 2011 and 2010, respectively.

NOTE 15 - OPERATING LEASE COMMITMENTS

The Organization leases office space in Oakland (two locations), San Francisco, Washington D C , Baltimore, New Orleans, Los Angeles, Newark, Portland, Phoenix, Salt Lake City, Campbell, Albuquerque, Jamaica Plain (MA), Houston, Jackson, Chicago, St Paul, Denver, Detroit and Philadelphia. The office space leases expire at various periods through December 31, 2014 and three are on a month-to-month basis. The Organization also leases office equipment. The office equipment leases expire at various periods through September 10, 2014. Rental expense, including in-kind, for the years ended June 30, 2011 and 2010 was \$639,273 and \$459,680, respectively.

PLAYWORKS
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NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 15 - OPERATING LEASE COMMITMENTS (Continued)

Future minimum lease payments are as follows

<u>Year Ending June 30,</u>	<u>Amount</u>
2012	\$ 546,340
2013	385,505
2014	290,616
2015	<u>108,730</u>
Total Future Minimum Lease Payments	<u>\$ 1,331,191</u>

NOTE 16 - RELATED PARTY TRANSACTIONS

A board member is a principal at a company that owns the building in which the Organization rents office space in downtown Oakland, California at 380 Washington Street. The term of the lease is five years ending on December 31, 2014. The office space is approximately 9,395 square feet. The monthly rent is \$13,125 with annual increases on July 1, 2010, 2011, 2012 and 2013 of 10%, 10%, 6% and 6%, respectively.

The same board member also owns the building in which the Organization rents office space in downtown San Francisco, California at 650 Fifth Street, Suite 204. The term of the lease is on a month-to-month basis. The office space is approximately 720 square feet. The monthly rent is \$250 commencing on October 1, 2009, increases to \$400 on July 1, 2010 and increases to \$600 on July 1, 2011. On May 3, 2011 the lease was amended to include Suites 201 and 203 (approximately 1,444 square feet) and exclude Suite 204. The monthly rent was increased to \$1,500 on July 1, 2011.

A board member is a program officer for The Jenesis Group. The Organization was awarded a \$3 million grant from The Jenesis Group during the year ended June 30, 2010, of which \$1 million is included in Net Assets Released from Restrictions on the Statement of Activities. Grants receivable as of June 30, 2011 include \$1.5 million from The Jenesis Group payable in three installments of \$500,000 in July 2011, December 2011 and June 2012.

The Organization has a line of credit with The Jenesis Group, see Note 8.

PLAYWORKS
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NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 17 - RETIREMENT PLANS

401(k) Plan - Effective January 1, 2010 the Organization sponsors a defined contribution plan under Internal Revenue Code Section 401(k) (the Plan). Under the provisions of the Plan, participating employees may make voluntary contributions through salary deductions up to the maximum amount allowed by law. The Organization is authorized under the Plan to make employer contributions on behalf of its eligible employees. Employer contributions will be contributed to the employer contribution account under the Plan at such time the Organization deems appropriate. Employer contributions may be contributed during the Plan year or after the Plan year ends. During the years ended June 30, 2011 and 2010, no matching contributions were made by the Organization.

403(b) Plan - The Organization had a defined contribution plan as established under Internal Revenue Code Section 403(b) (the Plan) which was terminated in May 2010. All full time employees were eligible to participate in the Plan and could contribute the maximum amount allowed by the law. For each Plan year, the Board of Directors of the Organization determined the amount (if any) to be contributed to the Plan by the Organization. The Organization made no contributions for the year ended June 30, 2010.

NOTE 18 - SUBSEQUENT EVENTS

Program Expansion - Playworks launched programs in 8 additional cities after the close of the fiscal year.

Grant Commitment - In October 2011, the Organization received a grant commitment of \$1.2 million over two years from a corporate foundation.

SECTION II
SUPPLEMENTARY INFORMATION

PLAYWORKS
EDUCATION ENFRANCHISEMENT
(A Nonprofit Public Benefit Corporation)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2011

Government Grantor Pass-through Grantor Program Title	Federal CFDA Number	Pass-through Grantor's Number/ Grant Number	Grant Period/ Period In Current Fiscal Year	Revenue Recognized	Federal Expenditures
Corporation for National and Community Service					
AmeriCorps	94 006	07NDHCA004	8/15/07 - 7/31/10	\$ 9 000	\$ 9 000
AmeriCorps	94 006	10NDHCA004	8/1/10 - 7/31/13	1 040 000	1,040 000
Passed Through					
State of California					
AmeriCorps	94 006	09ACHCA0010003	8/1/10 - 7/31/11	756 000	756,000
State of Louisiana					
AmeriCorps	94 006	06AFHLA0010021	8/1/10 - 11/30/11	74,069	74 069
District of Columbia					
AmeriCorps	94 006	07AFHDC0010014	8/1/10 - 7/31/11	163,467	163,467
Total Corporation for National and Community Service				2,042,536	2,042,536
TOTAL FEDERAL ASSISTANCE				\$ 2,042,536	\$ 2,042,536

See Accompanying Notes to Schedule of Expenditures of Federal Awards

PLAYWORKS
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NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of Playworks Education Energized under programs of the federal government for the year ended June 30, 2011. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of Playworks Education Energized, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Playworks Education Energized.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Pass-through entity identifying numbers are presented where available.

SECTION III
REPORTS

EMERITUS

Alexander W. Berger (1916-2005)
Griffith R. Lewis

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Directors
Playworks Education Energized
(A Nonprofit Public Benefit Corporation)
Oakland, California

We have audited the financial statements of Playworks Education Energized (a nonprofit public benefit corporation) as of and for the year ended June 30, 2011, and have issued our report thereon dated November 4, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Playworks Education Energized's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Playworks Education Energized's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether Playworks Education Energized's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to management of Playworks Education Energized in a separate letter dated November 4, 2011.

This report is intended solely for the information and use of management, the audit committee, the board of directors, others within the Organization, and federal and other governmental awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Berger Lewis Accountancy Corporation". The script is cursive and fluid, with the words connected together.

BERGER LEWIS ACCOUNTANCY CORPORATION
San Jose, California
November 4, 2011

Thomas C. Bondi
Lawrence S. Kuechler
Roberto M. Maragoni
Frank A. Minuti, Jr.

EMERITUS

Alexander W. Berger (1916-2005)
Griffith R. Lewis

BERGER LEWIS
ACCOUNTANCY CORPORATION
CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS ADVISORS

Daniel C. Moors
Randy G. Peterson
Todd W. Robinson
David R. Sheets
Robert W. Smiley

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB
CIRCULAR A-133**

To the Board of Directors
Playworks Education Energized
(A Nonprofit Public Benefit Corporation)
Oakland, California

Compliance

We have audited Playworks Education Energized's (a nonprofit public benefit corporation) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Playworks Education Energized's major federal programs for the year ended June 30, 2011. Playworks Education Energized's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Playworks Education Energized's management. Our responsibility is to express an opinion on Playworks Education Energized's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Playworks Education Energized's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Playworks Education Energized's compliance with those requirements.

In our opinion, Playworks Education Energized complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

Management of Playworks Education Energized is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Playworks Education Energized's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Playworks Education Energized's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the audit committee, the board of directors, others within the Organization, and federal and other governmental awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



BERGER LEWIS ACCOUNTANCY CORPORATION
San Jose, California
November 4, 2011

SECTION IV
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

PLAYWORKS
EDUCATION ENERGIZED
(A Nonprofit Public Benefit Corporation)

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2011

SUMMARY OF AUDITOR'S RESULTS

- 1 The auditor's report expresses an unqualified opinion on the financial statements of Playworks Education Energized
- 2 No significant deficiencies relating to the audit of the financial statements are reported in the Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*
- 3 No instances of noncompliance material to the financial statements of Playworks Education Energized, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit
- 4 No significant deficiencies relating to the audit of the major federal award programs are reported in the Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133
- 5 The auditor's report on compliance for the major federal award programs for Playworks Education Energized expresses an unqualified opinion on all major federal programs
- 6 No audit findings which would be required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this Schedule
- 7 The program tested as a major program included Corporation for National and Community Service - AmeriCorps - CFDA 94 006
- 8 The threshold used for distinguishing between Type A and B programs was \$300,000
- 9 Playworks Education Energized was determined to be a low-risk auditee

FINDINGS - FINANCIAL STATEMENTS AUDIT

NONE

FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

CORPORATION FOR NATIONAL AND COMMUNITY SERVICE

Name of Program - AmeriCorps

CFDA No - 94 006

None

PLAYWORKS
EDUCATION ENERGIZED
(A Nonprofit Public Benefit Corporation)

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year Ended June 30, 2011

NONE

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Thomas C Bondi
Lawrence S Kuechler
Roberto M Maragoni
Frank A Minutti, Jr

EMERITUS

Alexander W Berger (1916-2005)
Griffith R Lewis

BERGER LEWIS
ACCOUNTANCY CORPORATION

CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS ADVISORS

Daniel C Moors
Randy G Peterson
Todd W Robinson
David R Sheets
Robert W Smiley

To the Senior Management,
Audit Committee and Board of Directors of
Playworks Education Energized
Oakland, California

In planning and performing our audit of the financial statements of Playworks Education Energized ("Playworks" or the "Organization") for the year ended June 30, 2011, in accordance with auditing standards generally accepted in the United States of America, we considered the Organization's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion of the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

However, during our audit of the financial statements for the year ended June 30, 2010, we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The section of this letter titled "Current Status of Prior Years' Management Advisory Comments" on pages 2 through 10 provides our assessment of the current status of each of these recommendations. In addition, during our audit of the financial statements for the year ended June 30, 2011, we became aware of additional matters that are opportunities for strengthening internal controls and operating efficiency. The section of this letter titled "Current Year's Management Advisory Comments" on page 11 summarizes our comments and suggestions concerning these matters. This letter does not affect our report dated November 4, 2011 on the financial statements of Playworks Education Energized.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various Organization personnel, and we will be pleased to discuss these comments in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

We would like to thank Playworks Education Energized for providing to us all necessary information and documentation during the audit. We hope the audited financial statements will be of help to you for funding and financial planning.

This report is intended solely for the information and use of management, the Audit Committee, the Board of Directors, grant/contract funding sources, and others within the Organization and is not intended to be and should not be used by anyone other than these specified parties.

Berger Lewis Accountancy Corporation

BERGER LEWIS ACCOUNTANCY CORPORATION
San Jose, California
November 4, 2011

55 ALMADEN BLVD SUITE 600 SAN JOSE, CA 95113-1605 (408) 494-1200 (P) (408) 279-8186 (F)

MEMBER OF  AN ASSOCIATION OF SEPARATE AND INDEPENDENT ACCOUNTING & CONSULTING FIRMS

PLAYWORKS EDUCATION ENERGIZED

CURRENT STATUS OF PRIOR YEARS' MANAGEMENT ADVISORY COMMENTS

OUTSTANDING CHECKS

Observation - During our audit we noted that there were twelve outstanding checks totaling \$6,314.55 which were more than six months old as of June 30, 2008. To aid in the preparation of bank reconciliations and to reflect an accurate cash balance in the financial statements, all checks outstanding more than six months should be investigated and resolved (i.e.: reissued or written off).

Recommendation - We recommend that management review the monthly bank reconciliations in a timely manner. Any outstanding checks over six months should be investigated and resolved.

Management's Response (June 30, 2008) - In the current year, management performed reviews of the monthly bank statement reconciliations to assure accurate cash balances. By the end of the first fiscal quarter, management will develop and implement a process for investigating and resolving any outstanding checks more than 6 months.

Current Status (June 30, 2009) - During our audit for the year ended June 30, 2009 we noted that there were ten outstanding checks totaling \$6,106.59 which were more than six months old as of June 30, 2009. The above recommendation has not been implemented.

Management's Response (June 30, 2009) - Management will research and where appropriate, writeoff the above outstanding checks. In addition, management will implement a process for investigating and resolving any outstanding checks more than six months by the end of second fiscal quarter.

Current Status (June 30, 2010) - During our audit for the year ended June 30, 2010 we noted that there were 19 outstanding checks totaling \$4,508.03 which were more than six months old as of June 30, 2010. The above recommendation has not been fully implemented.

Management's Response (June 30, 2010) - Management partially implemented this recommendation. During the fourth fiscal quarter 2010, management investigated 7 checks totaling \$7,712.50 which were more than six months old which were reissued or written off. Management will investigate the remaining outstanding checks for write-off or reissuance. Uncashed checks to former employees for expense reports account for many of the remaining outstanding checks. Management will also consider implementing ACH or direct deposit of expense reports.

Current Status (June 30, 2011) - During our audit for the year ended June 30, 2011 we noted that the bank reconciliations tested had no outstanding checks over six months. In addition, we noted that the Organization has set up an "unclaimed funds" account that it plans to remit to the state after fully investigating the unclaimed checks.

ALLOWANCE FOR DOUBTFUL ACCOUNTS RECEIVABLE

Observation - During our audit we noted that the allowance for doubtful accounts receivable is not being analyzed periodically and adjusted for interim management reports or financial statements. Instead, the allowance from the preceding annual financial statements is used. This practice has the effect of misstating income on an interim basis and also of not providing management with the most accurate

PLAYWORKS EDUCATION ENERGIZED

CURRENT STATUS OF PRIOR YEARS' MANAGEMENT ADVISORY COMMENTS

monthly financial information possible.

Recommendation - We recommend that management prepare an analysis of doubtful accounts receivable at least quarterly. This analysis should consider prior charge-off experience and experience with the individual schools and students, as well as other information management may have about the account receivable, such as indications of financial difficulty. Management should adjust the allowance for doubtful accounts receivable after reviewing the analysis and making appropriate collection efforts, in order to collect as much as possible and to ensure that the estimated loss from doubtful accounts receivable is reflected accurately on the balance sheet.

Management's Response (June 30, 2008) - Management currently performs a review of the allowance for doubtful accounts on an annual basis and performs adjustments to reflect the estimated loss for doubtful accounts receivable. By the end of the first fiscal quarter, management will prepare a quarterly analysis of doubtful accounts receivable and make appropriate adjustments, if necessary to reflect the estimated loss for doubtful accounts receivable.

Current Status (June 30, 2009) - *During our audit for the year ended June 30, 2009 we noted that this recommendation has not been implemented*

Management's Response (June 30, 2009) - Management reviews doubtful accounts on monthly basis. In addition, the Board of Directors receives quarterly reporting of the aging of doubtful accounts. When appropriate, management will record an estimated loss on specific delinquent accounts receivable during the fiscal year. However, management has assessed that due to the cyclical nature of revenue recognition for certain categories of income, it is not feasible to prepare quarterly adjustments of estimated losses on broad categories of the current year's doubtful accounts receivable. In many cases, these estimates of losses would be reversed by year-end. Therefore, management will continue to prepare an estimate of losses on doubtful accounts receivable, on annual basis and at year-end to accurately state the realizability of income in audited financial statements.

Current Status (June 30, 2010) - *During our audit for the year ended June 30, 2010 we noted that the above recommendation has not been implemented.*

Management's Response (June 30, 2010) - Management formalized its school fee write-off policy during the quarter ended June 30, 2010. In the quarter ending December 31, 2010, Management expects to complete the implementation of school collection tracking in Salesforce to provide additional oversight into collection efforts and to specific accounts that might not be collectible. Management will prepare an estimate of losses on doubtful accounts on a quarterly basis.

Current Status (June 30, 2011) - *During our audit for the year ended June 30, 2011 we noted that the Organization reviewed its accounts receivable and related allowance for doubtful accounts on a monthly basis. The above recommendation has been implemented*

REVIEW THE ALLOWANCE FOR DOUBTFUL GRANTS AND PLEDGES RECEIVABLE

Observation - During our audit we noted that management reviews the grants and pledges receivable aging for past due receivables periodically, but does not necessarily consider an adjustment for the allowance for doubtful grants and pledges receivable. Receivable aging and collection trend reports are

PLAYWORKS EDUCATION ENERGIZED

CURRENT STATUS OF PRIOR YEARS' MANAGEMENT ADVISORY COMMENTS

important tools in evaluation of collectability of grants and pledges.

Recommendation - We recommend that management prepare an analysis of doubtful grants and pledges receivable at least quarterly. This analysis should consider prior charge-off experience and experience with the individual donors, as well as other information management may have about the grant or pledge receivable, such as indication of financial difficulty. Management should adjust the allowance for doubtful grants and pledges receivable after reviewing the analysis and making appropriate collection efforts, in order to collect as much as possible and to ensure that the estimated loss from doubtful grants and pledges receivable is reflected accurately on the balance sheet.

Management's Response (June 30, 2008) - By the end of the first fiscal quarter, management plans to prepare a quarterly analysis of doubtful grants receivable and make appropriate adjustments for grants receivable, if necessary to reflect the estimated loss for doubtful grants receivable.

Current Status (June 30, 2009) - During our audit for the year ended June 30, 2009 we noted that this recommendation has been implemented

Management's Response (June 30, 2009) - Management reviews doubtful grants and pledges receivable on a monthly basis. When appropriate, management will record an estimated loss on delinquent grants or pledges receivable during the fiscal year. However, the Organization's historical write-off rate for grants and pledges is practically zero. In addition, each grant has a unique and sometimes lengthy payment term cycle spanning years compared to the typical for-profit business account. As such, we are very prudent in the monitoring of delays in payments on grants and pledges receivable to evaluate their collectability. In general and similar to accounts receivable, management will continue to prepare an estimate of losses on grants and pledges receivable, on annual basis and at year-end to accurately state the realizability of income in audited financial statements.

Current Status (June 30, 2010) - During our audit for the year ended June 30, 2010 we noted that no allowance for doubtful grants and pledges receivable was considered necessary as of June 30, 2010. In addition, we noted that the Organization's historical write-off for grants and pledges receivable has been very low. The above recommendation has, in substance, been implemented since no adjustment was considered necessary at any of the quarter ends during the year.

Management's Response (June 30, 2010) - Management formalized its contribution write-off policy during the quarter ended June 30, 2010. Management distributes monthly aging reports to the Director of Strategy to prompt collection actions. Management will prepare an estimate of losses on doubtful accounts on a quarterly basis if required.

Current Status (June 30, 2011) - During our audit for the year ended June 30, 2011 we noted that the Organization reviewed its grants receivable and related allowance for doubtful accounts on a monthly basis. The above recommendation has been implemented.

AFTER-SCHOOL SPORTS PROGRAM FEES

Observation - During our audit we noted that the Organization holds after-school sports programs throughout the year. Students pay a fee, by cash or check, in order to participate in these after-school programs. However, students are not required to pay if they cannot afford this fee. This creates the

PLAYWORKS EDUCATION ENERGIZED

CURRENT STATUS OF PRIOR YEARS' MANAGEMENT ADVISORY COMMENTS

opportunity for Site Coordinators to receive cash from a student and keep it, citing to management that the student could not afford the fee. Note that this comment is not meant to imply that we identified misappropriation of after-school sports program fees, but that additional controls could reduce the risk of misappropriation.

Recommendation - We recommend that the Organization consider developing and implementing additional cost effective controls to reduce the risk of misappropriation. For example, a policy could be implemented citing that all students are required to pay the fee but if they cannot afford the fee, a fee-waiver form should be signed by the student's parents and mailed in a pre-addressed stamped envelope to the Playworks headquarters in Oakland. Fees collected and approved fee-waiver forms could then be reconciled to the student participant rosters. Discrepancies could be investigated and resolved in a timely manner.

Management's Response (June 30, 2008) - Management developed an effective process with the new school year to improve the collection of student participation fees by documenting student payment of fees or fee waivers. All paid fees and waiver forms will be sent to the Playworks headquarters office or remote office for reconciliation to student rosters and any discrepancies will be resolved. This procedure will be implemented in October 2008 which is the start of league programs at Playworks.

Current Status (June 30, 2009) - During our audit for the year ended June 30, 2009 we noted that the above recommendation has been implemented

Current Status (June 30, 2010) - During our audit for the year ended June 30, 2010 we tested the league fee and waiver documentation sent to Playworks headquarters from 4 cities. Out of the 4 cities tested, only 1 city had provided the original signed League Fee Collection and Scholarship Form to Playworks

Management's Response (June 30, 2010) - Management will increase training to City personnel on the League Fee Collection and Scholarship Form.

Current Status (June 30, 2011) - During our audit for the year ended June 30, 2011 we noted that schools do not send back League Fee forms if no fees are collected. Based on our audit procedures performed we noted that the Playworks headquarters in Oakland received League Fee forms on average from only 35 out of 247 schools. We also noted that total revenue recognized for League Fees totaled \$11,883

Management's Response (June 30, 2011) - The Organization will update the league cash reporting procedures to include submission of a report in the event of a full scholarship for the team

OFFSITE LOCATIONS OVERSIGHT

Observation - During our audit we noted that the Organization currently has locations in six cities throughout the United States and plans to expand to 22 new cities over the next four years. We also noted that in the future the offsite locations may become more involved in fundraising activities and the related receiving of grant and contribution monies. Based on the existing controls, there appears to be lack of assurance that all funds received by the offsite locations are forwarded to the Playworks headquarters in Oakland.

Recommendation - We recommend that Playworks routinely perform checks on the locations to improve

PLAYWORKS EDUCATION ENERGIZED

CURRENT STATUS OF PRIOR YEARS' MANAGEMENT ADVISORY COMMENTS

oversight. Specifically, we recommend that Playworks:

- monitor all fundraising activities at its offsite locations,
- track anticipated large receipts and investigate amounts not received when expected,
- publish donor names and amounts by category (i.e.: \$100 to \$250 category, etc.) in its newsletters so that donors can follow up if their names are omitted,
- consider having unaffiliated individuals periodically mail in contributions (in cash or check form) to its offsite locations and track the subsequent receipt of these contributions at the Playworks headquarters in Oakland.

Management's Response (June 30, 2008) - During second fiscal quarter, Management will develop and implement a policy and procedure to perform periodic and unannounced site visits to check on remote offices to monitor and manage oversight of receipts from fundraising activities at remote offices.

Current Status (June 30, 2009) - During our audit for the year ended June 30, 2009 we noted that the Organization implemented tracking of anticipated large receipts and the publishing of donor names and amounts by category in the annual report. The Organization did not fully implement the recommendation regarding the monitoring of all fundraising activities at its offsite locations and the recommendation regarding having unaffiliated individuals periodically mail in a contributions (in cash or check form) to its offsite locations and track the subsequent receipt of these contributions at the Playworks headquarters in Oakland.

Management's Response (June 30, 2009) - During the year, management implemented an interim measure to strengthen internal controls over remote office management of fundraising receipts. City Executive Directors in remote offices are required to sign-off on the completeness and accuracy of payments received and recorded in donation logs prior to mailing both to the Oakland headquarters office. Management plans to implement remote office monitoring of fundraising activities by the end of second fiscal quarter.

Current Status (June 30, 2010) - During our audit for the year ended June 30, 2010 we noted that there is no documented policy to perform periodic and unannounced site visits to check on remote offices to monitor and manage oversight of receipts from fundraising activities at remote offices. We recommend the Organization document its existing offsite locations oversight policies and procedures and consider documenting and implementing additional policies and procedures in this area. We have provided a list of additional procedures to consider in the above "Recommendation" section.

Management's Response (June 30, 2010) - Management will document and adopt at least two recommendations listed above by the second fiscal quarter.

Current Status (June 30, 2011) - During our audit for the year ended June 30, 2011 we noted that the Organization had unaffiliated individuals periodically mail in contributions (in cash or check form) to its offsite locations and tracked the subsequent receipt of these contributions at the Playworks headquarters in Oakland without exception. In addition, we noted that the Organization published donor names in its annual report. The above recommendation has been implemented.

PLAYWORKS EDUCATION ENERGIZED

CURRENT STATUS OF PRIOR YEARS' MANAGEMENT ADVISORY COMMENTS

CREDIT CARD / DEBIT CARD EXPENDITURES

Observation - During our audit we noted that the Organization's current credit card policies state that "All receipts for purchases made on Playworks issued American Express or other credit cards must be given to the Accounting Associate within seven days of purchase, or of completion of travel. An Expense Report Form should be completed. The only exception to this is for city offices who may submit their American Express reports on the last day of each month." During our testing of the Organization's credit card policies and controls, we noted that out of the two months tested and 297 transactions, 80 (or approximately 27%) of the transactions did not have receipts. In addition, 9 of the 19 credit card statements tested did not include an Expense Report. All expenses tested did appear reasonable and non-personal.

Recommendation - We recommend that the Organization strengthen its controls in this area by enforcing its policy requiring all purchases be accompanied by a receipt. In addition, we recommend that the Organization clarify and enforce its policy regarding submitting credit card Expense Reports.

Management's Response (June 30, 2008) - Management believes these two months were an anomaly in regards to substantiated receipts for credit card receipts compared to the remainder of the fiscal year. However, management will take the recommendation under advisement and issue a reminder to staff of the credit card expense policy and enforce the submission of receipts for credit card receipts.

Current Status (June 30, 2009) - During our audit for the year ending June 30, 2009 we noted that out of 3 months of credit card testing 6% of the transactions tested did not have supporting receipts. This is a significant decrease from the 27% that were missing during the testing for the prior year audit, however there is still room for improvement in this area. All expenses tested did appear reasonable and non-personal. The above recommendation has not been fully implemented.

Management's Response (June 30, 2009) - As a result of the training implemented for managers and communications to employees this year and in regards to submission of receipts, we have experienced a significant drop of missing supporting documents. Management will continue to conduct periodic trainings and sending communications to employees to improve in this area.

Current Status (June 30, 2010) - During our audit for the year ending June 30, 2010 we noted that this recommendation has been implemented for credit card purchases. However, during our testing of debit card purchases we noted that 43 transactions (totaling \$2,332) of the 76 transactions tested did not have receipts.

Management's Response (June 30, 2010) - Management has reinforced a tighter deadline for City Executive Directors to submit Expense Reports with supporting documentation for debit card purchases.

Current Status (June 30, 2011) - During our testing of debit card purchases for the year ended June 30, 2011 we noted that only 4% of the transactions tested did not have receipts. This is a significant improvement compared to our test results for the prior year. However, we also noted that 68% of the debit card expense reports tested did not include evidence of management's review and approval on the expense reports. **THIS POINT TO BE DISCUSSED.**

PLAYWORKS EDUCATION ENERGIZED

CURRENT STATUS OF PRIOR YEARS' MANAGEMENT ADVISORY COMMENTS

Management's Response (June 30, 2011) - In general, debit cards are only issued Executive Directors and Program Directors who have signing authority within their budget for invoice amounts up to \$2500 and \$1000 respectively. Within a 24 hour period, these cards are limited to \$300 cash withdrawal and \$500 point of sale unless a specific exception is requested and granted for one to 5 days. All debit card activity is monitored daily via the online banking system. Debit card activity is a separate bank account and which is manually replenished as needed after review by the Accounting Manager. All debit card reports prepared by Program Directors are approved by their Executive Director.

During recess roll out, debit cards may be issued to other positions in the organization for a one-week period with the same limits described above. All debit card reports are approved.

We are currently reviewing alternative credit cards and purchasing cards and electronic expense reporting software with workflow-enabled approvals to streamline our credit card, debit card and petty cash processes.

IMPROVE TRANSPARENCY - BETTER BUSINESS BUREAU

Better Business Bureau Wise Giving Alliance - Charity Seal Program

Observation - During our audit we noted that the Organization is in the process of expanding its programs nationally. The Better Business Bureau Wise Giving Alliance offers national charities that meet its *Standards for Charity Accountability* the option of applying for a BBB national charity seal that can be displayed both online and in their solicitation materials. The *Standards for Charity Accountability* were developed to assist donors in making sound giving decisions and to foster public confidence in charitable organizations. The standards seek to encourage fair and honest solicitation practices, to promote ethical conduct by charitable organizations and to advance support of philanthropy. The seal provides the public with a clear, concise and easily recognizable symbol that the subject national charity adheres to the Alliance's strong and comprehensive standards. Only national charities that meet the standards are eligible to apply for the seal. Participation in the seal program requires a license agreement and a fee based on a sliding scale.

Recommendation - We recommend that the Organization review and comply with the Better Business Bureau Wise Giving Alliance's *Standards for Charity Accountability* (during our audit we noted that the Organization is currently in compliance with most of the standards). In addition, we recommend that the Organization consider applying for a BBB national charity seal at the time its program services reach national coverage and/or it solicits nationwide. We have provided information on the application process including the *Standards for Charity Accountability* and related *Implementation Guide* for your consideration (see attached Exhibits 5a and 5b).

Management's Response (June 30, 2008) - Management will take under advisement the recommendation and work to determine the appropriate action necessary.

Current Status (June 30, 2009) - During our audit for the year ended June 30, 2009 we noted that the Organization has not yet reached national coverage. We continue to recommend that the Organization

PLAYWORKS EDUCATION ENERGIZED

CURRENT STATUS OF PRIOR YEARS' MANAGEMENT ADVISORY COMMENTS

consider applying for a BBB national charity seal at the time its program services reach national coverage and/or it solicits nationwide

Management's Response (June 30, 2009) - Management continues to take this recommendation under advisement and as we near completion of our national expansion, we will work to determine the appropriate action necessary to implement this recommendation

Current Status (June 30, 2010) - During our audit for the year ended June 30, 2010 we noted that the Organization has not yet reached national coverage. We continue to recommend that the Organization consider applying for a BBB national charity seal at the time its program services reach national coverage and/or it solicits nationwide

Management's Response (June 30, 2010) - Management will apply for a BBB national charity seal in Fiscal Year 2011-12 when we anticipate soliciting nationwide.

Current Status (June 30, 2011) - During our audit for the year ended June 30, 2011 we noted that the Organization is in the process of applying for a BBB national charity seal.

EXECUTIVE COMPENSATION

Observation - During the audit we noted that the personnel files of the Executive Director, President and Chief Financial Officer did not contain up to date documentation regarding their salary and the approval of their salary from the governing board or an authorized compensation committee of the board

The California Nonprofit Integrity Act of 2004 requires that compensation, including benefits, of certain officers (the Chief Executive Officer or President and the Chief Financial Officer) be reviewed and approved by the board of directors or an authorized committee of a charitable organization. The purpose of the review is to determine whether the compensation is "just and reasonable". The review must occur when the officer is hired, when the term of employment of the officer is renewed or extended and when the compensation is modified, unless the modification applies to substantially all employees (see attached Exhibit 1)

In addition, it should be noted that the new IRS Form 990 has additional disclosure requirements regarding "compensation" including disclosures on former officer compensation (see attached Exhibits 2, 3 and 4).

Recommendation - We recommend that the Organization follow the requirements of the California Nonprofit Integrity Act of 2004 and that the Organization maintain documentation of the review and approval of the Executive Director, President and Chief Financial Officer's salary and benefits in their personnel file. We have provided tools and a template to assist with documentation of the review and approval (see attached Exhibits 5 and 6).

Management's Response (June 30, 2010) - Management prepared a summary of Executive Compensation for review by the Board of Directors at their October 11, 2010 meeting. The documentation will be maintained in the board records.

PLAYWORKS EDUCATION ENERGIZED

CURRENT STATUS OF PRIOR YEARS' MANAGEMENT ADVISORY COMMENTS

Current Status (June 30, 2011) - DOCUMENTATION STILL TO BE REVIEWED

JOURNAL ENTRIES

Observation - During our audit we noted that of the 25 journal entries tested 7 were missing approval and 2 did not have supporting documentation readily available for us to review.

Recommendation - We recommend that the Organization develop and implement a policy requiring all nonrecurring journal entries over \$5,000 to be reviewed and approved by someone other than the preparer. All journal entries should have the supporting documents attached for the review and approval and be filed in a binder.

Management's Response (June 30, 2010) - Management will adopt this recommendation during the current fiscal year.

Current Status (June 30, 2011) - During our audit for the year ended June 30, 2011 we noted that the above recommendation has been implemented.

PLAYWORKS EDUCATION ENERGIZED

CURRENT YEAR'S MANAGEMENT ADVISORY COMMENTS

VENDOR APPROVAL

Observation - During our audit we noted that the Organization's significant expansion has and will continue to require the utilization of new unfamiliar vendors. We also noted that the Organization does not have formal new vendor approval process.

Recommendation - We recommend that the Organization consider developing and implementing a formal new vendor approval process. Specifically, we recommend that the Organization consider having a responsible official perform one or more of the following to authenticate new vendors:

1. Perform an internet and / or Yellow Pages search
2. Perform a search on the California Secretary of State website at: <http://kepler.sos.ca.gov/cbs.aspx>
3. Obtain a signed form IRS Form W-9 from any independent contractors
4. Perform a search on the vendor's physical address (legitimate vendors typically do not have a P.O. box address)

Management's Response - We require all vendors to submit an IRS Form W-9 prior to entering the vendor in the accounting system.